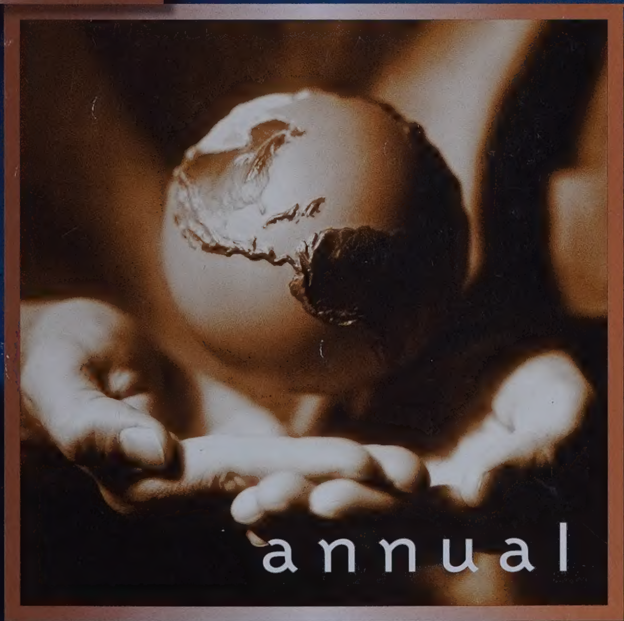
ARCHITEL SYSTEMS CORPORATION

1997



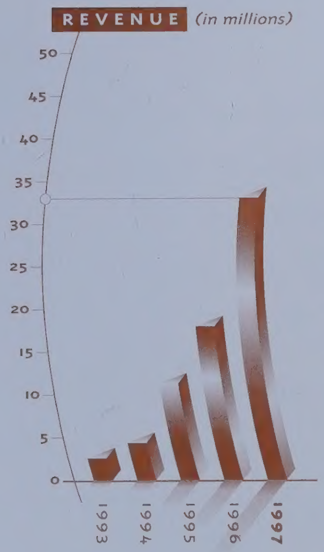
annual report

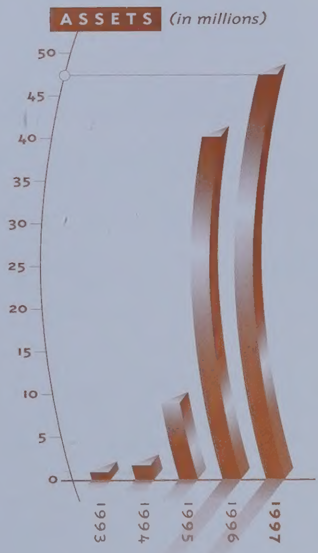
ARCHITEL

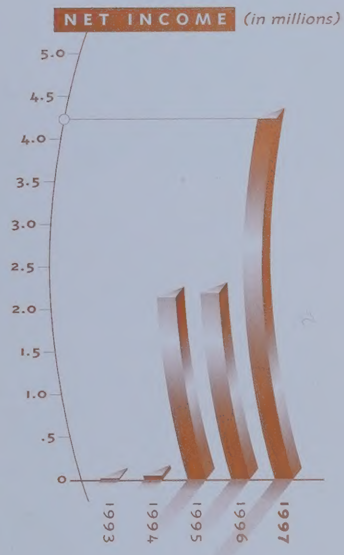
forward vision

The global telecommunications industry is undergoing unprecedented change in the form of deregulation, privatization, increased competition, technological change and convergence. Architel is helping telecommunications service providers throughout the world to compete in this new era of competition and rapid change. Architel provides the critical Operations Support Systems infrastructure that enables existing and new carriers to deliver an increasing array of services in a timely and responsive manner.

Architel has proven itself to be one of the most dynamic and innovative companies in the industry supported by its talented and dedicated employees. The Company's customer base includes the largest players in the telecommunications industry as well as the new entrepreneurial start-ups. With its outstanding technology, strong balance sheet, blue-chip customer base and proven track record of delivery, Architel is well positioned to strengthen its leadership position in the Operations Support Systems marketplace.







financial highlights

		1997	1996
INCOME STATEMENT	Revenues	**$ 33,034,436**	$ 17,976,168
	Net Income	**4,225,847**	2,192,222
BALANCE SHEET	Current Assets	**$ 43,318,793**	$ 34,324,116
	Capital Assets	**3,562,392**	3,208,542
	Other Assets		2,606,940
	Total Assets	**$ 47,409,365**	$ 40,139,598
	Current Liabilities	**6,867,937**	3,894,787
	Other Liabilities	**0**	0
	Total Liabilities	**$ 6,867,937**	$ 3,894,787
SHAREHOLDERS EQUITY	Total equity	**$ 40,541,428**	$ 36,244,811
	(Number of Employees)	**211**	141

Financial information in this report is expressed in Canadian dollars, unless otherwise stated.

to our shareholders

Anthony P. van Marken, *President and Chief Executive Officer*

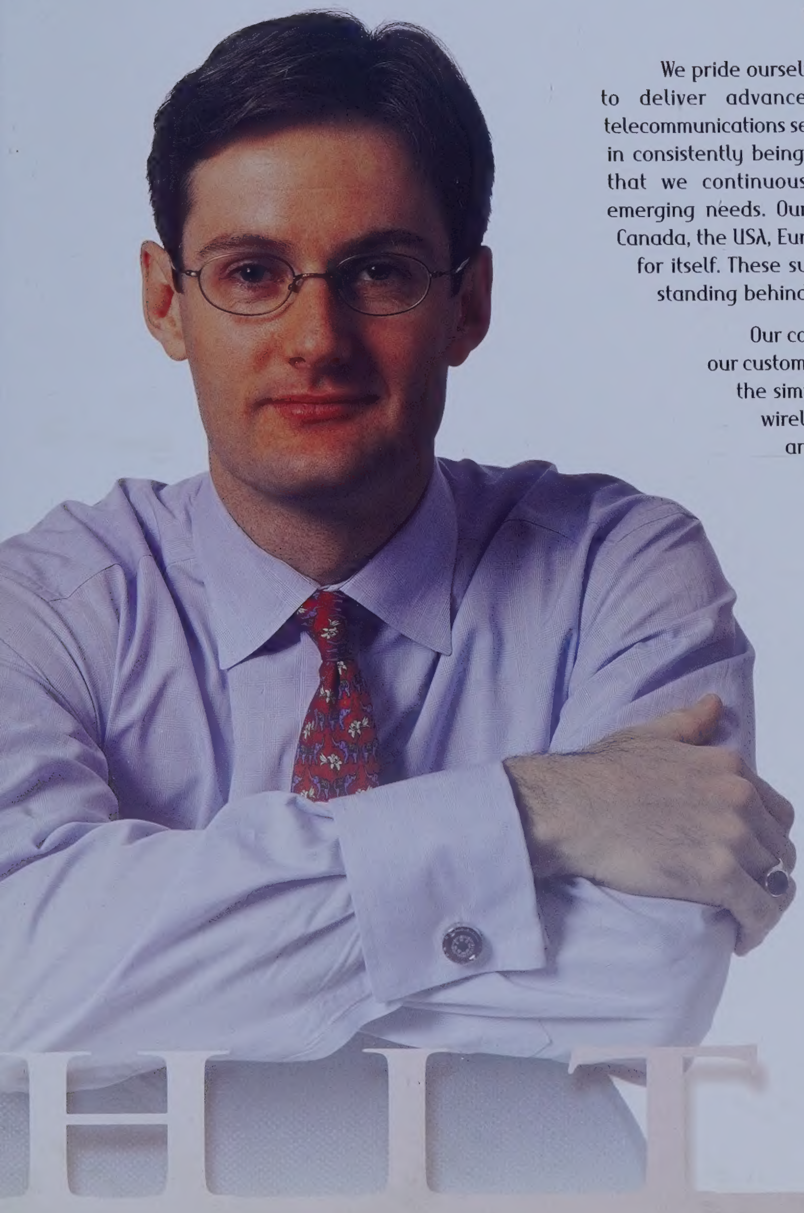
Architel Systems Corporation had an outstanding year in 1997. Not only did we achieve record financial results, but we continued to mature as a successful organization and further entrenched ourselves as the global leader in provisioning solutions for the telecommunications marketplace.

During 1997, Architel rose to the challenge of helping our customers adapt to the whirlwind of change sweeping the global telecommunications industry. This challenge sharpened our focus and reinforced our customer-centric approach to developing, delivering and supporting outstanding software products. Today, Architel is a recognized leader in the global Operations Support Systems market. As a dynamic, entrepreneurial and innovative organization, we are well positioned to help telecommunications service providers survive and prosper in the turbulent environment of deregulation, competition, convergence and technological change.

outstanding financial performance

Our financial performance in 1997 exceeded our expectations. We completed the 1997 fiscal year on a high note with record fourth quarter revenue of almost $10 million. Total revenues for the year, excluding investment income of $1.8 million, were $33 million, an increase of 84% over revenues in the previous year. Net income for the year was $4.2 million, an increase of 93% over net income in the previous year. On a fully diluted basis, earnings per share were $0.32, up 60% from $0.20 in the previous year.

We completed the fiscal year with cash and negotiable securities of $34 million. Our strong balance sheet and continued outstanding financial performance continues to provide us with a strong platform for growth that we believe will lead to even greater financial rewards in 1998.



why ARCHITEL is a leader

We pride ourselves on being a company with the vision and expertise to deliver advanced software solutions to meet the needs of telecommunications service providers on a global basis. Architel's strength lies in consistently being at the next stage of product evolution by ensuring that we continuously respond to the telecommunications market's emerging needs. Our track record of successful product installations in Canada, the USA, Europe, the Caribbean and the Asia Pacific region speaks for itself. These successes have earned us a reputation for integrity in standing behind both our commitments and our products.

Our convergent provisioning product offering, ASAP, provides our customers with a competitive advantage. This product enables the simultaneous activation of voice and data services in the wireline, wireless and broadband domains. The superiority and market dominance of this product was reaffirmed in 1997 by the addition of new customers such as GTE, Ameritech, MetroNet, MCI and WorldCom, who chose Architel ahead of other suppliers. By significantly improving service delivery, ASAP has become a strategic weapon for telecommunications service providers seeking to win market share.

ASAP also allows customers a great deal of flexibility in choosing their level of involvement in product implementation and support. ASAP's flexible framework allows our customers to decide on their level of involvement in implementing and supporting their own solutions. This partnering approach to working with our customers has been a key ingredient in our success.

developing superior products

As a product company, we are committed to the continual enhancement and expansion of our core product technology. 1997 marked the release of the next generation of our flagship product: ASAP 4.0. This release is the first horizontal, convergent provisioning platform capable of supporting not only traditional narrowband telephony and wireless services, but also broadband. We are excited about this new product platform and, judging from the response, so are our customers.

In 1997, we spent 21% of revenue on research and development resulting in a year-to-year increase of 80%. We will sustain this level of investment in 1998 to ensure that we maintain our competitive advantage with the ASAP product and to invest in future product initiatives. We believe that this will continue to create a sound platform for growth based on outstanding OSS software products.

building a world-class organization

Architel underlined its commitment to becoming a global player in 1997 by extending its worldwide presence. We opened new offices in Dallas, Texas and Denver, Colorado and established a European headquarters in London, England, to ensure that we could operate in closer proximity to our customers and partners.

During the year, we attracted more than 70 new and talented employees to bolster our research and development, professional services, marketing, sales and product support initiatives. We ended 1997 with 211 employees in total. Additionally, recognizing that it is impossible to continually develop new products and services without developing people, we established a training and education department for our employees, customers and partners.We also made a number of management changes. Most notably, I am pleased to welcome George Timmes as Senior Vice President of Worldwide Operations. George joins a world-class management team and an outstanding group of talented employees, ready to take Architel through the next phase of growth.

forging alliances with strategic partners

A key element in our growth strategy is to establish alliances with strategic partners to access new markets. This approach allows us to provide worldwide support to our customers and partners as they expand abroad and simultaneously positions us to pursue new customer relationships in foreign markets. In 1997, we signed global alliances with two strategic vendors in the telecommunications industry.

Ericsson of Sweden, a leading network equipment vendor, chose ASAP as their strategic provisioning platform. In addition, after five successful joint projects, we formalized our alliance with Andersen Consulting on a global basis. We are extremely enthusiastic about the opportunities presented by our affiliation with these two world-class organizations.

the future

Imagine the potential for telecommunications when half the population of the world has never made a phone call. Add to this the fact that demand for telecommunications services, including telephone lines, cellular service, and Internet access is increasing worldwide. At the same time, the global telecommunications arena continues to experience rapid change as a result of technological advances, deregulation, convergence, privatization and increasing competition. These factors all translate into growing demand for "best in class" OSS software products, and significant market opportunity for Architel.

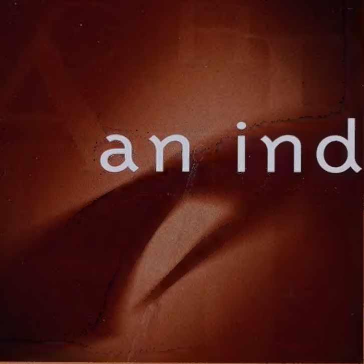
Our goal is to be one of the world's leading providers of OSS software products and services to the telecommunications industry. Our strategy to achieve this goal is as follows :

- **Maintain technological advantage** - we will continue to invest in R&D to enhance our existing products. Through on going product evolution and service enhancement, we aim to firmly entrench our flagship product, ASAP, as the de facto standard for service provisioning in the telecommunications industry.
- **Develop new Operations Support Systems products** - we will expand our product offerings through the development of new OSS products that meet the needs of the telecommunications industry.
- **Develop strategic alliances** - we will continually seek global alliances with selected strategic partners that will enhance our distribution and delivery capability.
- **Acquisitions** - we will consider strategic acquisitions that enable us to expand our product portfolio, penetrate new markets and enhance our global infrastructure thus enabling us to accelerate our growth.
- **Invest in infrastructure** - we will continue to invest in our sales, marketing, research and development, professional services and product support infrastructure to meet our corporate goals and to ensure that we provide the highest levels of service to our customers.

In summary, Architel is an exciting growth company operating in a growing market. We have built a solid foundation for the future with our best-of-class products, high quality customer base, solid delivery track record, strong balance sheet and global focus. Thanks goes to our customers, partners, shareholders and employees whose dedication, commitment and support are responsible for our impressive performance during 1997. We look forward to even greater shared prosperity in 1998 and beyond.

A. P. van Marken

Anthony P. van Marken *President and Chief Executive Officer*



an industry in turmoil:
the battleground

The telecommunications industry is experiencing a whirlwind of change unprecedented in its history. Global reform, technological change and convergence are having profound and far-reaching implications on how telecommunications service providers operate and people live their everyday lives.

The last two years has seen tumultuous change in the industry led by the United States with the introduction of the Telecom Reform Act of 1996. This legislation allows local, long distance and cable companies to enter each others' markets in the United States for the first time, resulting in increased competition and wider choice for consumers. Internationally, the telecommunications industry continues to change with the introduction of de-regulation in the European market in 1998, continued privatization and de-regulation in the Asia/Pacific and further progress by the World Trade Organization in opening up telecommunications markets to foreign competition.

These changes are for the first time allowing service providers to provide a wide range of services to consumers and creating true competition not just in local markets, but on a global basis. 1997 saw the establishment of more global alliances and the consummation of some of the largest mergers in corporate history, as service providers attempted to create global strategies to dominate the industry. The resulting competition from this change is expected to be to the ultimate benefit of consumers in the form of lower prices and broader choice. For the first time, consumers will be able to experience one-stop shopping for a basket of telecommunications services from a single provider.

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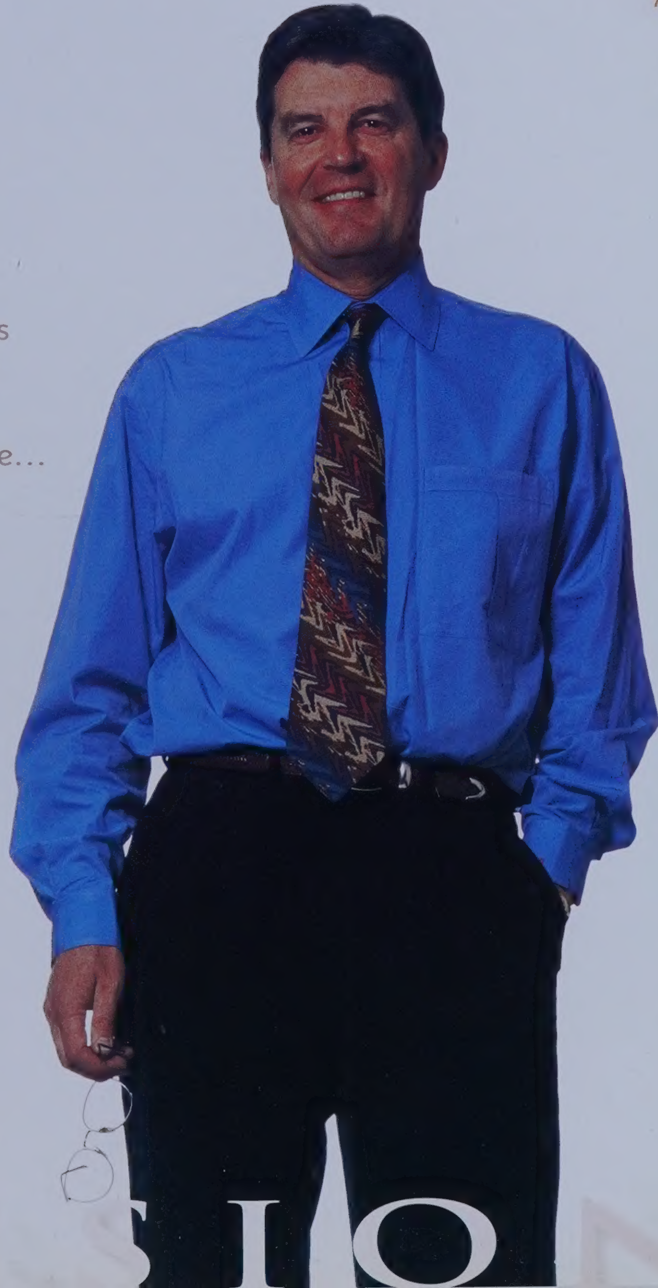
"Chaotic and profound change in the global telecommunications industry is creating a significant opportunity for software vendors that can address the complex challenge of convergence... we have accepted the challenge!"

Dave Curry, *Co-Founder and Senior Vice President, Business Development*



L'S VISION

market dynamics:
the opportunity

The transformation of the telecommunications industry is having a global impact on the very fabric of society. One aspect of this change is rapid growth. Cellular subscribers are increasing at an annual rate of 68.9%. Internet access is growing by 113.1% per year. Demand for telephone access lines is growing at an annual rate of 5.1%. Ancillary services such as Call Display, Call Waiting, and Call Answer are growing in popularity daily.

Growing demand for such services is fueling the market for the Operations Support Systems (OSSs) that deliver and support them as well. OSSs are the computer systems used by telecommunications service providers to run all aspects of their operations, including order processing, service provisioning, work force management and network management. In order to respond to the challenges of deregulation and competition, established telecommunications services providers and new entrants are procuring "best-in-class" OSS solutions. According to Dataquest Incorporated, the worldwide OSS market grew 22% to US$14.6 billion in 1997, and is expected to reach US$28 billion by the year 2002. This represents a significant market opportunity for software vendors who can provide advanced Operations Support Systems that meet the needs of the industry.

"We will ensure that our Operations Support Systems become an indispensable resource to telecommunications service providers on a global basis."

Stuart Griffith, *Vice President, Finance and General Counsel*

operations support systems:
the strategic weapon

Competition, technological advances and heightened consumer demand for new and existing services are causing telecommunications service providers to reengineer business processes for the faster and more efficient delivery of an expanding range of services. These developments are also creating strong demand for new and better OSS software, as telecommunications service providers increasingly require systems that offer customer management, an environment for rapid service creation, and network resilience.

In the new world of telecommunications the ability of service providers to respond and adapt to change will depend on the quality of their Operations Support Systems. Operations excellence will be the battleground that defines the winners and losers. Marketing and technology alone will not guarantee success. Competition is squeezing every segment of the industry: local, long distance, wireless, cable TV and internet access. Service providers who cannot compete at an operations level and provide high quality services in a timely, efficient and low cost manner will lose market share.

Operations Support Systems need to be architected to respond to this challenge. Scalability, performance, flexibility, availability and functionality will be key attributes of any OSS infrastructure. If service providers do not view their OSSs as strategic weapons, they will enter the battle to win market share ill equiped.

"RBOCS, CAPS, CLECS, wireless providers and start-ups have chosen Architel products as their OSS weapon of choice in the battle to win market share."

Daniel K. Vermeire, *Vice President, Marketing*

convergent provisioning:
the ARCHITEL solution

"We are a company known for product innovation... we intend to continue to maintain our technological advantage over the competition."

Michael A. Morris, *Vice President, Engineering*

Architel's convergent provisioning offering, ASAP, enables the simultaneous activation of voice and data services in the wireline, wireless and broadband domains. ASAP's key competitive advantage is its ability to convergently provision a bundle of voice and data services across a complex heterogeneous network through a single point of contact with the customer. This integrated service delivery concept enables the integration of a disparate array of Business Support Systems (systems which involve customer contact, such as service order processing and billing systems), Operations Support Systems and network element technologies to ensure the efficient utilization of resources and to satisfy increasing customer demands.

Integrated service delivery is no longer just a vision, but a necessity, as telecommunications service providers compete globally to offer a growing combination of telephony, paging, video and internet services to an increasingly sophisticated and demanding consumer base. Time to market with new services is a key competitive factor, together with the ability to deliver services in the form and in the time frames demanded by customers.

"Our consistent delivery of best-in-class products on budget and on time is why companies like GTE, WorldCom, MCI, Bell Atlantic, MetroNet and US West choose Architel over the competition."

David Nyland, *Vice President,*
Worldwide Professional Services

Instant service activation is a key business need within the telecommunications industry today. Those telecommunications service providers that are fast to market with expanded services and can provide instant activation of services will gain and retain customers and achieve revenue protection. At the same time, telecommunications service providers of every size and type must strive to reduce costs and errors in the service activation process.

ASAP has been developed as a hardware-independent, distributed, client/server solution. ASAP is a totally open systems environment, interfacing to service management and network management systems and devices across multiple technologies, protocols, transport mediums and platforms. An additional competitive advantage of ASAP is its award winning, high availability architecture, which enables seamless, fault-tolerant operation on a continuous basis.

ASAP meets the needs of small, medium and large telecommunications companies and with its flexible architecture and sophisticated functionality has become the OSS of choice for service activation in the telecommunications industry.

making it happen:
the people

Architel has assembled an outstanding senior management team with broad experience across the telecommunications, consulting and software industry. This team is well supported by over 225 talented employees located throughout Canada, the United States and Europe.

A group of Architel employees at the Toronto head office.

"Our ability to attract and retain the very best people is the foundation of our success."

Richard Kathnelson, *Vice President, Human Resources*

Architel has a proven track record in developing and delivering innovative software solutions to solve complex problems in small, medium and large telecommunications companies. Our customer-centric culture is highly focused on meeting and exceeding customer expectations in the new competitive world of telecommunications.

Our Research and Development group, located in Toronto, Canada, is focused on maintaining and enhancing our products as well as developing new innovative solutions for the telecommunications marketplace. It is well supported by the Sales and Marketing organization, which assists in determining and driving industry and product requirements. Our Professional Services organization is the vital interface to the customer during the delivery and implementation of our products, providing key services such as program and project management, requirements analysis and development services. Post production support is provided by our Product Support group located in Toronto, Canada, which provides 24x7, time-zone independent support to our worldwide customer base.

employee growth 1993 - 1997

global success:
the customers

"The ultimate test of any company is customers... we work with the giants of telecommunications to the start-ups who may become the next generation of industry leaders."

George Timmes, *Senior Vice President, Worldwide Operations*

ASAP is a proven technology in use with telecommunications service providers worldwide. ASAP has been licensed to a variety of small, medium and large telecommunications service providers in North America, Europe, the Caribbean and Asia/Pacific. ASAP's architecture allows it to be scaled to meet the current and future growth requirements of telecommunications service providers, from start-ups to RBOCs. The Company's target market segments are wireless, wireline (local and long distance) and Competitive Access Providers (CAPs).

Architel's workforce management product, FAMIS (Field Access Management Information System) and handheld software has also been licensed to small and large telecommunications companies in the United States and Canada. Currently these products are in use at NBTel, SaskTel, MT&T, NewTel Communications and Ameritech.

The following is a list of customers who have licensed Architel Products:

Canada

- NBTel
- MT&T
- NewTel Communications
- MetroNet
- Bell Mobility
- SaskTel
- BCTel

United States

- Bell Atlantic (1)
- U S WEST
- WorldCom
- MCI
- Ameritech
- GTE

Caribbean

- The Bermuda Telephone Company Limited
- Cable and Wireless Jamaica

Europe

- Airtel (Spain)
- TeleNor (Norway)
- Energis Communications Limited (United Kingdom)

Asia/Pacific

- Telecom New Zealand Limited
- TIME Telecommunications Sdn. Bhd (TIME Telekom) (Malaysia)

Note: (1) Bell Atlantic, an ASAP licencee, merged with NYNEX, an ASAP licencee during 1997. The surviving company entity is indicated only.

management's discussion and analysis of financial condition and results of operations

overview

The Company derives all of its revenue from licensing Operations Support Systems (OSS's) to telecommunications service providers and providing related services. Revenues are predominately attributed to the Company's service activation software product, Automatic Service Activation Program (ASAP), with a relatively small percentage of revenues attributed to the Company's work force management product, Field Access Management Information System (FAMIS).

In fiscal 1997, total revenues, excluding investment income of $1.8 million, increased to $33.0 million, up 84% from $18.0 million in fiscal 1996. Net income for fiscal 1997 increased to $4.2 million, up 93% from $2.2 million in fiscal 1996, with operating expenses increasing at a rate just less than that of revenues. On a fully diluted basis, earnings per share were $0.32 in fiscal 1997 as compared with $0.20 in fiscal 1996.

In fiscal 1996, total revenues, excluding investment income of $1.0 million, increased to $18.0 million, up 61% from $11.2 million in fiscal 1995. Net income for fiscal 1996 increased marginally to $2.2 million from $2.1 million in fiscal 1995, as operating expenses as a percentage of revenues increased, reflecting significant investments made by the Company to support revenue growth. On a fully diluted basis, earnings per share were $0.20 in fiscal 1996 as compared with $0.26 in fiscal 1995. This decline in earnings per share was principally as a result of additional shares issued in the Company's initial public offering in March of 1996 and options to purchase common shares of the Company granted prior to the initial public offering.

During fiscal 1997, earnings per share continued to be adversely affected by the amortization of a $3.0 million payment made to a third party in lieu of a pre-existing royalty obligation in respect of ASAP licenses. Excluding the effect of the amortization of this one-time royalty payment, which represented 6.0% of revenues in fiscal 1997 and 6.8% of revenues in fiscal 1996, fully diluted earnings per share would have been $0.41 for fiscal 1997 and $0.24 for fiscal 1996. The amortization of this royalty payment was completed in the final quarter of fiscal 1997.

In recent years, the Company has earned the majority of its revenues from sales denominated in U.S. dollars, while most expenses have been incurred in Canadian dollars. Accordingly, the Company's operating results have been, and will continue to be, affected by changes in the exchange rate between U.S. and Canadian currencies. Specifically, an appreciation of the Canadian dollar in comparison to the U.S. dollar could adversely affect results. In fiscal 1997, the difference between U.S. dollar denominated revenues and expenses increased by approximately 80% over the same amount in fiscal 1996, but, as a percentage of total revenues, remained substantially the same. As the Company expands its operations internationally, it will be exposed to currency fluctuation risks with respect to other foreign currencies. Changes in exchange rates relative to the Canadian dollar will continue have a material impact on the Company's future operating results, as it is anticipated that the significant majority of the Company's revenues will be from sales denominated in currencies other than the Canadian dollar. Historically, the Company has not engaged in hedging its foreign currency-denominated sales, and will continue to assess the advisability of doing so.

During fiscal 1997, certain items in the Consolidated Statements of Operations were reclassified to facilitate better comparability of results to other companies in the Company's market segment. These reclassifications included combining revenues into two categories, disclosing cost of services and gross profit, and allocating more of the general and administrative expenses and all depreciation and amortization to the appropriate expense categories. The following discussion and analysis is based on the retroactive application of these reclassifications.

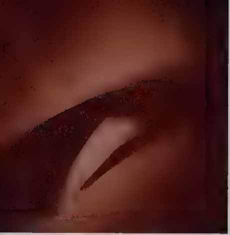
results of operations

The table below sets forth, as a percentage of total revenues, items from the Company's Consolidated Statement of Operations for the fiscal years ended September 30 indicated:

	1997	1996	1995
Revenue:			
License fees	63.2%	69.3%	57.0%
Services and Other	36.8	30.7	43.0
Total revenue	100	100	100
Cost of Services	25.6	23.5	25.5
Gross Profit	74.4	76.5	74.5
Expenses:			
General and administrative	14.3	19.9	14.9
Sales and marketing	16.6	12.3	12.1
Research and development	21.2	21.6	9.2
Royalties	6.0	6.8	5.4
Total operating expenses	58.1	60.6	41.6
Income from operations	16.3	15.9	33.0
Interest income	5.4	5.5	0.4
Income before income taxes	21.7	21.4	33.3
Provisions for income taxes	8.8	9.2	14.2
Net income	12.9	12.2	19.1
Earnings per share			
Basic	0.34	0.21	0.34
Fully diluted	0.32	0.20	0.26
Weighted average number of shares:			
Basic	12,467,507	10,251,362	6,232,204
Fully diluted	13,550,140	11,539,490	8,167,967

revenue

In thousands	1997	1996	1995
License Fees	$ 20,890	$ 12,455	$ 6,358
Percentage increase over prior year	68%	96%	
Services and Other	$ 12,144	$ 5,521	$ 4,798
Percentage increase over prior year	120%	15%	
Total	$ 33,034	$ 17,976	$ 11,156
Percentage increase over prior year	84%	61%	



A standard sale involves the licensing of the Company's software product together with the provision of professional services (consulting, installation, implementation, customization and training) and post implementation support and maintenance of the licensed software. Frequently, the Company will enter into an interim arrangement with a prospective customer pending execution of a final agreement in order to commence work on an implementation project. In such cases, the Company will earn professional services revenue and a license rental fee.

License fees are determined based on a number of factors related to the scope of use of the software, such as the telecommunication services, size of network and geography supported by the software. Traditionally, the Company has charged a one-time up-front license fee or an up-front fee with additional one-time fees based on the growth of the customer's operations and use of the Company's software. During fiscal 1997, the Company commenced offering an alternative pricing option to address the financial needs of start-up companies, which provides for a lower initial fee, with ongoing periodic license fee payments based on the use of the Company's software. This pricing alternative provides the Company with the potential for recurring license fees that grow as the customer's use of the Company's software grows. At the same time, it results in lower license fee revenues in the short term and exposes the Company to risk that such on-going license fees will not be realized due to the customer's business failing to succeed or grow, the customer ceasing use of the Company's software or the customer failing to remain solvent.

Professional services are provided to complement a product license. Such services are most often provided on a time and materials basis and occasionally on a fixed price basis. Often, the Company is retained as subcontractor to a systems integrator retained to implement the Company's product. Professional services may be provided at a customer site following initial implementation, depending on the needs of the customer, with the result that professional services may continue to be earned after the corresponding license fee revenue has been recognized.

Software support fees, usually payable annually in advance, generally range from 15% to 22.5% of the license fee per annum and are recognized over the period of the support contract. Revenue from software support arises with both the ASAP and FAMIS products and generally commences upon first production use of the software. Software support includes problem fixes as well as certain upgrades to the licensed software.

The Company's objective is to derive a majority of its revenues from license fees; the Company's focus being as a product development company as opposed to a systems integrator. While license fees as a percentage of revenues increased in fiscal 1996 compared to fiscal 1995, it declined in fiscal 1997 compared to fiscal 1996. Some of this change is due to the timing of license fee recognition on projects, but there are a number of other factors which contributed to this change in revenue mix for fiscal 1997. During fiscal 1997, revenues were derived from a larger number of customers, including some where, due to the relatively smaller size of the customer, the license fee represented a smaller percentage of the overall revenue from the project. This was especially the case where the alternative pricing option described above was utilized. Recently, the Company has experienced a number of situations where customers preferred to contract directly with the Company to provide the required implementation services, rather than employing a larger systems integrator, resulting in a larger scope of professional service work than had been experienced previously. Similarly, as part of a general outsourcing trend in the industry, customers retained the Company for more post implementation work than had been experienced in the past, a trend that is expected to continue. Finally, on-going support revenues continue to grow, as the Company's customer base expands. As a result of these trends, it is expected that, at least in the short term, the percentage of revenues represented by services will continue to increase, although license fees will continue to represent the majority of revenues. The Company is currently considering a strategy of providing certain application software on a license fee basis, which has previously been provided on a service fee basis. The successful implementation of this initiative would offset this trend. In addition, license fee revenue derived through the Company's sales channel partners has the potential to offset this trend over the medium to longer term, as such partners develop the capability to effectively sell, deliver and provide solution support, with less involvement from the Company.

The recent adoption of the usage-based pricing option described above is designed to provide more recurring license fee revenue for the Company, but is not expected to have a material impact on revenues in the short term. While there exists the opportunity to obtain additional license fees from an existing client, based on expanding the scope of a license previously granted, the Company relies primarily on sales to new customers to generate additional license fee revenue. Although the Company's customer base has grown significantly in terms of number of customers and customer mix, a majority of the Company's revenues are still being derived from large contracts with a relatively small number of customers. Sales cycles continue to be lengthy especially with the larger telecommunications service providers and increasing competition in the start-up market is creating pricing pressures. Accordingly, the potential for quarterly revenue fluctuations is expected to continue, at least in the short term.

license fees

Revenue from end-user license fees is generally recognized on the percentage of completion basis over a 4 to 18 month period depending on the amount of product enhancement or work required for the implementation of the Company's product at a customer site. In certain situations, license fees are recognized on a milestone basis, where, for example, the related license contract provides for acceptance upon delivery of software or revenue is based on the growth in a customer's business or the extent of use of the Company's products.

During fiscal 1997, license fee revenue was derived from a total of 10 ASAP customers, 5 of which commenced projects in prior years. License fee revenue was higher in fiscal 1997 than in fiscal 1996, principally due to a higher number of larger customers with higher license fees. The majority of the license fee revenue in fiscal 1997 was derived from 5 customers, which included two customers (one RBOC and one Competitive Access Provider) for whom projects commenced during fiscal 1996 but were mostly completed in 1997, and three new customers (an RBOC, a large independent telecommunications service provider, and a Competitive Access Provider).

In fiscal 1996, license fee revenues were derived from a total of 9 customers, 4 of which commenced projects in the prior year. These license fee revenues were principally derived from new ASAP licenses to 2 RBOCs, a Competitive Access Provider and a wireless provider. In fiscal 1995, license fee revenues were derived from 6 customers and principally from ASAP licenses to one RBOC and two start-up providers, one in the United Kingdom and one in Malaysia.

The Company does not actively sell its work force management product and therefore did not generate material license fee revenue from it during fiscal 1997 or fiscal 1996 and does not anticipate doing so during fiscal 1998. The Company is continuing to assess its strategy with respect to its workforce management solution.

services and other

Services and other revenue consist of professional services, product support and commissions earned on required third party software. Professional services revenue is generally recognized on a time and materials basis and varies between contracts depending on the level of the Company's involvement in the implementation of the Company's software.

Professional services revenue in fiscal 1997 totaled $9.1 million compared to $3.7 million in fiscal 1996 and $3.5 million in fiscal 1995. In fiscal 1997, professional services revenue was earned at 18 customer or partner accounts, with over 70% of such revenue attributed to 3 customers. The increase in professional services revenue in fiscal 1997 was due to larger ASAP implementation projects for a larger number of customers.

Product support revenue in fiscal 1997 totaled $3.0 million (9% of revenues) compared to $1.5 million (8% of revenues) in fiscal 1996 and $1.2 million (11% of revenues) in fiscal 1995. Customers receiving support during fiscal 1997 totaled 15, of which ten related to ASAP and five to FAMIS/Handheld products, compared to ten during fiscal 1996, of which five related to ASAP and five related to FAMIS/Handheld products. Product support revenues are expected to continue to grow as new licenses are sold.

Of total services revenue, 93% was derived from services related to ASAP during fiscal 1997, compared to 82% in fiscal 1996 and 69% in fiscal 1995. It is expected that ASAP services revenues will continue to grow as a percentage of total services revenue in fiscal 1998.

Also included in services and other revenue is commission earned on third party software licensed by the Company's customers in conjunction with the license of ASAP, although such commissions are relatively insignificant. Revenue for sales of third party software have not been included in the Consolidated Statement of Operations, as these transactions have been made directly between the Company's customer and the third party software supplier.

sales by geographic region - all categories combined

In thousands	**1997**		1996		1995	
Canada	**$ 2,233**	**6.8%**	$ 2, 737	15.2%	$ 2,066	18.5%
United States	**$ 29,333**	**88.8%**	$ 11,594	64.5%	$ 5,984	53.6%
Europe/Asia Pacific.	**$ 1,468**	**4.4%**	$ 3,645	20.3%	$ 3,106	27.9%
Total	**$ 33,034**	**100%**	$ 17,976	100.0%	$ 11,156	100%

Over the past three years, the significant majority of the Company's sales have been made to customers located outside of Canada. The high percentage of sales in the United States over the last three years reflects the Company's focus on this market to take advantage of demand for service activation solutions as a result of competitive pressures created by telecom reform in 1996. The Company expects that demand for its service activation solution will remain strong in the United States over the foreseeable future. With market de-regulation in Europe commencing January 1, 1998, the Company is expanding its efforts in this market and expects that the percentage of its revenues derived from the European Community will increase in fiscal 1998 and subsequent years. While the Company also intends to focus sales effort in the Asia/Pacific region during fiscal 1998, it will do so carefully (in light of the current economic turmoil in that region) and with a view to seeking greater penetration of the market through partners.

expenses

Total expenditures increased at a rate just less than the rate of growth of revenues, as the Company continued to make significant investments to support revenue growth.

cost of services

In thousands	**1997**	1996	1995
Cost of services expenses	**$ 8,472**	$ 4,237	$ 2,842
Percentage increase over prior year	**100%**	49%	

Costs of services consist mainly of personnel, direct and related overhead costs associated with providing professional services and product support. Margin on services revenue (excluding third party commissions) increased to 30.0% in fiscal 1997 from 18.5% in fiscal 1996, but down from 39.1% in fiscal 1995. Margin on services declined in fiscal 1996 due to a significant increase in the size of the product support and professional services groups, with additional hiring and facilities established in the United States for the professional services organization. Margin on services increased in fiscal 1997 due to economies of scale within the product support group, resulting from additional support customers, and was partially offset by a small decline in the professional services margin as the cost of infrastructure expansion undertaken in fiscal 1996 was incurred over the entire 1997 fiscal year. In addition, investment was made in fiscal 1996 and 1997 in establishing a training program for customers, partners and employees and it is expected that revenues from this service, together with further economies of scale in both the professional services and product support groups, will increase services margins in fiscal 1998.

Although both revenues and earnings increased significantly in 1997, gross profit as a percentage of total revenues declined. This decline in gross profit margin was due solely to services revenue making up a larger portion of total revenues. Notwithstanding the potential for a modest improvement in the services margin, the decline in the gross profit margin is expected to continue, at least in the short term, as the trend toward professional services representing a larger percentage of total revenues continues for the reasons described above.

general and administrative

In thousands	**1997**	1996	1995
General and administrative expenses	**$ 4,732**	$ 3,570	$ 1,659
Percentage increase over prior year	**33%**	115%	

General and administrative expenses consist primarily of salaries and benefits of all administrative, human resource, finance, legal and internal information technology service personnel. As a percentage of revenue, general and administrative expenses fell to 14.3% in fiscal 1997 from 19.9% in fiscal 1996 and 14.9% in fiscal 1995 as the Company was able to absorb these costs over a broader revenue base. During fiscal 1997, the Company opened a UK office in London, England to support its European sales and services activities. In addition, late in the year, an office was opened in Dallas, Texas to support regional sales and services groups and the Company's industry marketing group. The large increase in general and administrative expenses in 1996 was primarily as a result of the expansion of the Toronto head office to 27,300 square feet to accommodate significantly more staff and the set-up of a Washington office, which is the Company's base for its North American professional services group. The head office facilities in Toronto support all administrative functions including finance, human resources, legal and information technology services. Future increases in general and administrative expenses will be dependent upon the level of administrative resources required to support additional sales of license fees and services. With respect to office facilities, a head office expansion of approximately 10,000 square feet in Toronto commenced in January 1998 and future additional European and new Asia/Pacific facilities may occur depending on growth opportunities in these regions. Nevertheless, it is expected that, in the short term, general and administrative expenses will not increase as a percentage of revenues and may continue to decline slightly.

General and administrative expenses also include adjustments reflecting foreign exchange translations. While such adjustments were not significant in fiscal 1996 or fiscal 1995, a favourable adjustment of approximately $100,000 was realized in fiscal 1997 as a result of the decline in the Canadian currency exchange rate relative to the U.S. dollar during that period.

sales and marketing

In thousands	**1997**	1996	1995
Sales and marketing expenses	**$ 5,488**	$ 2,208	$ 1,357
Percentage increase over prior year	**149%**	63%	

Sales and marketing expenses include salaries, benefits and commissions paid to sales, product and industry marketing, and channels personnel, and expenses related to trade shows, conferences, promotional activities, marketing communications materials, travel and other overhead costs. Sales and marketing expenses increased significantly in 1997 from prior years principally as a result of the expansion of the sales and marketing personnel and related infrastructure, commissions paid on higher license fees, more involvement at industry forums, and higher travel expenses incurred to develop a larger customer base. Specifically, the major initiatives during 1997 included extensive senior level recruiting to greatly expand the Company's direct sales force and related technical sales support group in Europe and the United States, as well as building dedicated channels, industry and product marketing groups. It is expected that sales and marketing expenses will continue to grow as a percentage of revenues for the 1998 fiscal year, as the Company focuses on maintaining its revenue growth.

research and development

In thousands	**1997**	1996	1995
Net research and development	**$ 6,989**	$ 3,876	$ 1,022
Percentage increase over prior year	**80%**	279%	

Research and development expenses consist primarily of technical research and development personnel salaries and benefits, consulting fees, equipment leases, travel expenses and other attributable overhead costs. In accordance with generally accepted accounting principles in Canada, the Company has expensed all research costs as incurred. Development costs have also been expensed as they have not met the criteria for deferral under generally accepted accounting principles. Research and development costs increased significantly in fiscal 1997 and in fiscal 1996 due to significant further development of the ASAP product to support the provisioning of broadband services and emerging telecommunication industry standards. In addition, quality and testing groups were significantly enhanced to ensure the Company's products continue to maintain the high standards demanded by the Company's customers. For the foreseeable future, the Company intends to maintain a level of research and development expenditures, as a percentage of revenues, at least equal to that for fiscal 1997 in order to continue to further enhance ASAP, to continue to simplify the method of implementing such product, and to undertake new product development initiatives.

Under the Income Tax Act (Canada), certain research and development activities performed by the Company qualify for investment tax credits which accrue at a rate of 20% (35% for fiscal 1995 and previous years) of eligible research and development expenditures. These credits are recorded when there is reasonable assurance of realization and, accordingly, the Company accrues a portion only of the total credits claimed. Such accruals are netted against gross research and development expenses. To the extent that the actual credit realized exceeds or is less than the accrual, the difference will be realized in the period when such difference is determined.

royalties

In thousands	**1997**	1996	1995
Paid/payable to NBTel	**$ 75**	$ 231	$ 514
Amortization of Royalty	**$ 1,913**	$ 997	$ 90
Total royalty expenses	**$ 1,988**	$ 1,228	$ 604

Cash royalties and amortization of royalty relate solely to a prior arrangement with NBTel (New Brunswick Telephone Company Limited). Under an agreement with NBTel, the Company was obligated to pay royalties to NBTel at a rate of 20% for ASAP sales in Canada and 15% elsewhere. In fiscal 1996, Architel paid $3.0 million to NBTel in lieu of all future royalties, as further described in note 5 to the Consolidated Financial Statements. This $3.0 million payment was amortized against income based on ASAP license fee revenue. The increase in royalties in fiscal 1996 and fiscal 1997 was principally as a result of increased sales of ASAP licenses. The amortization of the $3.0 million payment was completed in the fourth quarter of fiscal 1997. In addition, no further cash royalties remain to be paid.

interest income

The large increase in interest income in fiscal 1997 and fiscal 1996 was principally a result of the investment of the proceeds from both the Company's initial public offering in March 1996 and the exercise of the underwriter's over-allotment option in April 1996. It is anticipated that the current levels of interest income will continue for the near future, unless adverse interest rate fluctuations occur in the fixed income market, as positive cash flows from operations are expected.

income taxes

	1997	1996	1995
Income tax rate	**40.8%**	42.9%	42.5%

The Company's combined Canadian statutory income tax rate currently approximates 44.6% and the actual effective tax rate can vary from the statutory rate due to income being earned in foreign jurisdictions with different tax rates. Accordingly, the provision for income taxes does not necessarily equal the Canadian statutory rate. The effective rates were lower than the Canadian statutory rate principally due to income being earned in a jurisdiction with a lower rate and the Ontario super allowance on research and development activity. The effective tax rate should remain lower than the Canadian statutory rate as expansion continues outside of Canada to support foreign business opportunities.

managing operating risks

In addition to the potential for fluctuations in quarterly revenues and foreign exchange risks, discussed above, the significant operating risks facing the Company include maintaining revenue growth and expanding market share in an increasingly competitive market, maintaining the perceived technological superiority of its current product, developing new products, and recruiting and retaining key personnel required to achieve these objectives.

The most significant factor in maintaining the Company's revenue growth in the short term is the ability of the Company to expand market penetration of its ASAP product, by market segment and geography, both directly and through channel partners. The Company's strategy is to increase its investment in its sales and marketing organization in order to enhance its direct sales capability in North America, Europe and Asia/Pacific as well as to make further investments to support its strategic partners, such as Ericsson Telecom, Andersen Consulting and potentially others.

Expansion of sales and operations into developing countries brings with it political and economic risks, unexpected changes in regulatory requirements, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, complex local procurement practices and requirements, longer accounts receivable payment cycles and difficulties in enforcing rights in foreign courts. Use of channel partners in such countries may assist in alleviating some of these risks.

The ability of the Company's channel partners to effectively sell and deliver the Company's products and to support Company product-based solutions is also an important factor in achieving continued revenue growth. In addition, this capability may offset the trend toward professional services revenues representing a more significant percentage of revenues where the Company sells it products directly. In the short term, the Company will be required to make a considerable investment to train and support its channel partners, while at the same time further developing its direct sales capability.

The Company believes that its recent success is in large part attributed to the superior functionality and performance of its ASAP product and that its ability to compete depends on maintaining this superiority. In the new entrant segment of the telecommunications service provider market, however, price and a more complete set of OSS solutions may be more important competitive factors than product superiority, as new entrants have limited financial and human resources and seek to deal with a limited number of independent solution providers. For this reason, and in order to sustain continued revenue growth, the longer-term success of the Company will be dependent upon not only maintaining the technological superiority of its current ASAP product, but also developing or acquiring additional OSS product solutions for the global telecommunications market. The Company's strategy is to continue to invest heavily in R&D to maintain the technological superiority of its current product as well as to develop new products. The Company will also continue to assess potential acquisitions as a means of pursing this strategy.

The Company's ability to enhance its existing product and to develop new products is in large part dependent upon relationships with key lead customers to assist in identifying requirements for such enhancements or products. The Company believes that it has such relationships, but the Company's business could be adversely affected if it incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render the Company's products or technologies non-competitive or obsolete.

The market for OSS's remains highly competitive, and the Company expects this competition to increase. The Company competes with systems integrators, telecommunications equipment vendors, hardware and software vendors and to a lesser extent with internal information systems departments of telecommunications companies. The Company competes with a number of companies that have substantially greater financial, technical, sales, marketing and other resources, as well as greater name recognition, than the Company. As a result, the Company's competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than can the Company.

The Company expects to continue to expand its operations rapidly, which has placed significant demands on the Company's managerial, operational and financial personnel and systems. The Company's future success depends on the ability of its officers and key employees to manage this rapid growth and changing business conditions effectively. The Company's future success also depends in large part on its key sales, marketing, product development and operational personnel, and its ability to continue to attract, motivate and retain highly qualified employees including technical, managerial and sales and marketing personnel. The employment market for such highly qualified personnel is highly competitive, putting upward pressure on compensation packages. The ability to issue stock options is an important factor in this regard.

The Company's success is also heavily dependent upon proprietary technology. The Company relies principally upon copyright protection and its trade secrets program to protect its proprietary technology. There can be no assurance that the steps taken by the Company in this regard will be adequate to prevent misappropriation or independent third-party development of its technology. Although the Company believes that its products and technology do not infringe patents or other proprietary rights of others, there can be no assurance that third parties will not claim the Company's current or future products infringe the patents or other proprietary rights of others.

liquidity

The Company ended the 1997 fiscal year in a highly liquid position as working capital increased from $1.1 million in fiscal 1995 to $30.4 million in fiscal 1996 to $36.5 million in fiscal 1997. The increase in working capital in fiscal 1997 resulted from positive cash flows from operations. The increase in fiscal 1996 resulted mainly from the issuance of common shares in the Company's initial public offering for net proceeds of $30.6 million. From the proceeds of the initial public offering, a $3.0 million payment was made to the Company's bank to extinguish a demand installment loan incurred to make the royalty payment to NBTel. In addition, the Company generated cash flows from operations, excluding changes in non-cash working capital items, of $7.9 million during fiscal 1997 which exceeded the $4.3 million and $2.7 million generated in fiscal 1996 and fiscal 1995, respectively.

As at September 30, 1997, the Company's available funds consisted of approximately $34.2 million ($35.2 million at market value) in cash and short-term investments and $1.0 million in an unutilized revolving demand credit facility with a Canadian chartered bank. This facility is secured by a general security agreement covering all assets of the Company and a first charge on all intellectual property. This high level of liquidity is expected to continue throughout fiscal 1997, although it may be subject to minor fluctuations on a quarterly basis due to timing of billing milestones on certain projects. Excess funds are invested in highly rated government and corporate bonds with maturity dates ranging from 1 to 5 years. On assets held in the portfolio as at September 30, 1997, the average rate of return was approximately 6%. It is not the Company's intention to pay dividends in the foreseeable future.

Recently, the Company has financed its growth through cash from operations, proceeds from the initial public offering and, to a very limited extent, short-term bank borrowings. The Company believes that existing cash resources and available borrowings under its demand facility will be sufficient to meet its planned operating and capital expenditures for the foreseeable future.

No significant capital commitments exist; however, the Company has long term lease commitments as disclosed in Note 9 of the Notes to the Consolidated Financial Statements that relate principally to office facilities and computer equipment for research and development purposes.

In recent years, inflation has not had a material impact on the Company's operations.

capital expenditures

Capital expenditures decreased by 38% to $1.9 million in fiscal 1997 from $3.1 million in fiscal 1996. This is compared to a 66% increase in capital expenditures from fiscal 1995 to fiscal 1996. In fiscal 1996, a major expansion occurred at the Toronto head office as space was increased to approximately 27,000 square feet. These large expenditures for additional office facilities, including the associated purchases of computer hardware and software, office equipment and furniture and fixtures, were necessary to support significant growth in staff from 68 in September 1995 to 141 and 212 in September 1996 and 1997, respectively. Capital expenditures in fiscal 1997 were less than originally budgeted due to the deferral of certain activities requiring hardware and software purchases.

The Company anticipates that capital expenditures for fiscal 1998 will generally approximate those of fiscal 1996 due to continued investment in computer hardware and software for research and development purposes, further expansion of the Toronto head office, the deferral of certain expenditures from fiscal 1997 to fiscal 1998 and potential additional European and Asia/Pacific offices to support business opportunities.

Certain parts of the foregoing discussion and analysis may be forward-looking statements that involve a number of risks and uncertainties. As a consequence, actual results may differ materially from results forecast or suggested in any forward-looking statements. Additional information on risks and uncertainties is contained in the Company's Annual Information Form as filed with the securities regulatory authorities in Canada.

management's responsibility for financial reporting

The accompanying financial statements and the information contained in this annual report are the responsibility of management and have been approved by the Board of Directors. Financial and operating data elsewhere in this annual report are consistent with the information contained in the financial statements.

These financial statements and all other information have been prepared by management in accordance with accounting principles generally accepted in Canada. Some amounts included in the financial statements are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that assets are safeguarded from loss or unauthorized use and that financial records are reliable for the purpose of preparing financial statements. The Board of Directors carries out its responsibility for the financial statements through the Audit Committee which consists of non-management directors. The Audit Committee periodically reviews and discusses financial reporting matters with the Company's auditors, Deloitte & Touche, as well as with management.

The financial statements have been audited by Deloitte & Touche, Chartered Accountants.

Anthony P. van Marken
President & Chief Executive Officer

E. STUART GRIFFITH
Vice President, Finance and General Counsel

auditor's report

to the shareholders of ARCHITEL SYSTEMS CORPORATION

We have audited the consolidated balance sheets of Architel Systems Corporation as at September 30, 1997 and 1996 and the consolidated statements of operations and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at September 30, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

CHARTERED ACCOUNTANTS

Toronto, Ontario

November 7,1997

consolidated balance sheets

Not cross-listed in 97

assets

	September 30 1997	September 30 1996
Current		
Cash and short term investments	$ 34,186,808	$ 27,716,597
Accounts receivable (Note 2)	8,269,941	5,954,056
Investment tax credit recoverable (Note 3)	599,846	460,100
Prepaid expenses	262,198	193,363
	43,318,793	34,324,116
Capital assets (Note 4)	3,562,392	3,208,542
Deferred income taxes	528,180	694,240
Deferred royalty (Note 5)	-	1,912,700
	$ 47,409,365	$ 40,139,598

liabilities and shareholders' equity

	September 30 1997	September 30 1996
Current		
Accounts payable and accrued liabilities	$ 2,793,779	$ 1,725,970
Income taxes payable	2,264,727	356,019
Deferred revenue	1,809,431	1,812,798
	6,867,937	3,894,787
Shareholders' equity		
Share capital (Note 6)	32,329,872	32,259,102
Retained earnings	8,211,556	3,985,709
	40,541,428	36,244,811
	$ 47,409,365	$ 40,139,598

Approved by the Board

Director *Director*

consolidated statements of operations and retained earnings

	Years ended September 30	
	1997	1996
Revenue		
License fees	$ 20,890,284	$ 12,455,239
Services and other	12,144,152	5,520,929
	33,034,436	17,976,168
Cost of services	8,471,955	4,236,723
Gross profit	24,562,481	13,739,445
Operating expenses		
General and administrative	4,732,439	3,570,276
Sales and marketing	5,488,040	2,208,526
Research and development (Note 3)	6,988,545	3,875,811
Royalties (Note 5)	1,987,700	1,227,600
	19,196,724	10,882,213
Income from operations	5,365,757	2,857,232
Interest income	1,773,090	984,990
Income before income taxes	7,138,847	3,842,222
Income taxes (Note 7)	2,913,000	1,650,000
Net income for the year	4,225,847	2,192,222
Retained earnings, beginning of year	3,985,709	1,793,487
Retained earnings, end of year	$ 8,211,556	$ 3,985,709
Earnings per share (Note 8)		
Basic	$ 0.34	$ 0.21
Fully diluted	$ 0.32	$ 0.20

consolidated statements of changes in financial position

Years ended September 30

net inflow (outflow) of cash related to the following activities:

	1997	1996
Operating		
Net income for the year	$ 4,225,847	$ 2,192,222
Add back: items not affecting cash		
Amortization - capital assets	1,548,515	924,581
- royalty	1,912,700	997,300
Deferred income taxes	166,060	210,060
	7,853,122	4,324,163
Change in non-cash working capital items	448,684	(2,161,143)
	8,301,806	2,163,020
Investing		
Purchase of capital assets	(1,902,365)	(3,069,305)
Financing		
Issuance of common shares	70,770	30,621,924
Royalty payment	-	(3,000,000)
Repayment of principal portion of obligations under capital leases	-	(6,871)
	70,770	27,615,053
Net Cash Inflow	6,470,211	26,708,768
Cash and short-term investments, beginning of year	27,716,597	1,007,829
Cash and short-term investments, end of year	$ 34,186,808	$ 27,716,597

notes to the consolidated financial statements

September 30, 1997 and 1996

1. accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company and its wholly-owned subsidiary companies, Architel Systems (U.S.) Corporation and Architel Systems (U.K.) Limited.

CASH AND SHORT-TERM INVESTMENTS

Cash and short term investments consist of cash and fixed income investments. Short-term investments are carried at the lower of amortized cost and market.

CAPITAL ASSETS

Capital assets are stated at cost less accumulated depreciation and amortization.

Depreciation and amortization is recorded using the following rates and methods:

Computer equipment	-	2 years straight-line
Computer software	-	2 years straight-line
Furniture and equipment	-	20% per annum declining-balance
Leasehold improvements	-	Over term of lease

RECOGNITION OF REVENUE

License fees are generally recognized using either the percentage of completion method or on a contract milestone basis. The percentage of completion method is generally used where significant development of the licensed software product is required. Recognition on contract milestones generally applies where minimal or no development of the licensed software product is required. Where the percentage of completion method is used, revisions to cost and profit estimates made during the course of work are reflected in the period in which the change is known. Provision is made in full for any anticipated loss when the estimate of total costs on a contract indicates a loss.

Services and other revenue, which consists of professional services revenue, product support revenue, and commissions earned from a third party software vendor, is recognized in the period in which the work was performed or commission earned. Certain contracts contain incentive provisions based on achieving performance milestones. These awards are included in income when realized.

Deferred revenue represents billings in advance of the services provided.

Accrued revenue for contracts in progress, included under accounts receivable, represents goods and services delivered or performed but not billed.

DEFERRED ROYALTY

Deferred royalty consists of a payment made in lieu of all royalties arising on future sales of ASAP (Automatic Service Activation Program) from July 1, 1995 onward. This amount has been amortized at a rate of 10% based on ASAP license fee revenues for contracts entered into subsequent to June 30, 1995.

RESEARCH AND DEVELOPMENT COSTS AND INVESTMENT TAX CREDITS

Research costs are expensed as incurred.

Development costs are expensed as incurred unless they meet the generally accepted accounting criteria for deferral and there is reasonable assurance they will be recovered. In the two years ended September 30, 1997, all development costs have been expensed as incurred.

Investment tax credits are recognized as a reduction of research and development costs when there is reasonable assurance that they will be realized.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. In particular, revenue recognition using the percentage of completion method requires the use of estimates of costs to complete projects. Actual results could differ from the estimates made by management.

FOREIGN CURRENCY TRANSLATION

The financial statements of the Company's foreign subsidiaries, both of which are considered to be operationally dependent upon the Company, are translated using the temporal method. Under this method, revenues and expenses are translated at rates in effect on the transaction date. Monetary assets and liabilities are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses on translation are included in the Consolidated Statement of Operations under General and Administration expenses.

2. accounts receivable

	1997	1996
Billed receivables	**$ 3,566,859**	$ 1,318,103
Accrued revenue for contracts in progress	**4,703,082**	4,635,953
	$ 8,269,941	$ 5,954,056

3. investment tax credit recoverable

For the year ended September 30, 1997, investment tax credits in the amount of $283,000 (1996 - $209,000) have been recognized as a reduction of research and development cost.

4. capital assets

	Cost	**1997 Accumulated Depreciation and Amortization**	**Net Book Value**
Computer equipment	**$ 2,734,355**	**$ 1,890,430**	**$ 843,925**
Computer software	**1,600,580**	**998,295**	**602,285**
Furniture and equipment	**1,753,310**	**554,307**	**1,199,003**
Leasehold improvements	**1,112,085**	**194,906**	**917,179**
	$ 7,200,330	**$ 3,637,938**	**$ 3,562,392**

	Cost	1996 Accumulated Depreciation and Amortization	Net Book Value
Computer equipment	$ 1,920,038	$ 1,151,527	$ 768,511
Computer software	924,751	565,768	358,983
Furniture and equipment	1,389,119	300,069	1,089,050
Leasehold improvements	1,064,052	72,054	991,998
	$ 5,297,960	$ 2,089,418	$ 3,208,542

5. deferred royalty

Under the terms of an agreement dated as of January 26, 1996, the Company acquired rights to an early version of certain software, which had been jointly developed by the parties to the agreement. The agreement provides that the other party will retain certain rights for the internal use of and to market this version of the software. Under the terms of a previous agreement, which expired on June 30, 1995, the Company paid royalties based on sales of this software. The new agreement required that the Company make a payment of $3,000,000 in lieu of all royalties payable in respect of software contracts entered into after June 30, 1995. This payment has been amortized against income based on the future license fee revenue from this software; for the year ended September 30, 1997, the amount charged was $1,912,700, for the year ended September 30, 1996, the amount charged was $997,300 and for the period July 1, 1995 to September 30, 1995, the amount charged was $90,000. These amounts are included in Royalties in the Consolidated Statement of Operations. As at September 30, 1997 the royalty has been fully amortized.

6. share capital

	1997	1996
Authorized Unlimited number of common shares Unlimited number of preferred shares, issuable in series	$ 32,329,872	$ 32,259,102

Changes to issued share capital are as follows:	Number of Common Shares	Amount
Issued and outstanding at September 30, 1995	3,171,102	$ 556,878
Issue of shares for cash under the Flexible Share Incentive Plan and to an external investor, net of cancellations	870,490	506,298
Stock split on a 2 for 1 basis	4,041,592	-
Issue of shares for cash under the Flexible Share Incentive Plan	857,550	254,267
Issue of shares for cash under the 1996 Stock Option Plan	15,110	143,545
Issue of shares for cash in initial public offering, net of after taxes issue costs	3,384,300	30,798,114
Issued and outstanding at September 30, 1996	12,340,144	32,259,102
Issue of shares for cash under the Flexible Share Incentive Plan, net of cancellations	215,400	64,620
Issue of shares for cash under the 1996 Stock Option Plan	750	6,150
Issued and outstanding at September 30, 1997	12,556,294	$ 32,329,872

On March 18, 1996, the Company issued by way of an initial public offering 2,984,300 common shares. On April 17, 1996, an additional 400,000 shares were issued pursuant to the exercise of an over-allotment option by the underwriters. Total gross proceeds from the initial public offering were $32,150,850.

The Company maintains a share option arrangement (Flexible Share Incentive Plan) for directors, officers and employees. As at September 30, 1997, options are outstanding under this plan for the purchase of 119,700 (1996 - 339,600) shares at a price of $.30 per share. These outstanding options were granted in January 1995 and can be exercised at any time following vesting until they expire on January 1, 2005. Of these outstanding options, 65,350 remain unvested as at September 30, 1997 and will vest on January 1, 1998. No additional options can be issued under the Flexible Share Incentive Plan.

On January 22, 1996, the Board of Directors adopted a share option plan (the "1996 Stock Option Plan") under which options to purchase common shares may be granted by the Board of Directors, or a committee thereof, to directors, employees and consultants of the Company. The exercise prices for grants under this plan are not less than the market price of the common shares at the date of grant. Options granted under the plan generally vest over a three or four year period from the date of grant and expire 10 years from the date of grant.

The following options are outstanding under the 1996 Stock Option Plan at September 30, 1997:

Date of Grant		Number of Options	Exercise Price
March	1996	379,000	$ 9.50
July	1996	10,500	9.25
August	1996	10,000	8.20
November	1996	33,000	9.50
December	1996	218,000	8.50
February	1997	46,200	9.50
March	1997	7,000	8.25
April	1997	331,900	8.50
May	1997	4,500	8.25
June	1997	102,300	7.00
July	1997	12,000	7.40
August	1997	15,500	9.00
September	1997	49,500	8.25
Total		1,219,400	

Subsequent to September 30, 1997, the Company issued additional options to purchase common shares as follows:

Date of Grant		Number of Options	Exercise Price
October 1,	1997	47,000	$ 11.10
October 29,	1997	5,000	11.45
November 1,	1997	5,600	12.50
Total		57,600	

In addition to the number of options outstanding at September 30, 1997 and granted subsequent to year end, 253,650 options are available for future issuance under the 1996 Stock Option Plan.

7. provision for income taxes

	1997	1996
Current	$ 2,963,000	$ 1,517,000
Deferred	(50,000)	133,000
	$ 2,913,000	$ 1,650,000

Income tax expense, including both the current and deferred portions, varies from amounts which would be computed by applying the Company's combined statutory income tax rate as follows:

	1997	1996
Combined rate of income taxes at 44.62% (1996 - 44.62%)	$ 3,185,000	$ 1,714,000
Increase (decrease) resulting from:		
Permanent differences	52,000	33,000
Effect of lower tax rate on foreign income	(200,000)	(24,000)
Other	(124,000)	(73,000)
	$ 2,913,000	$ 1,650,000

8. earnings per share

Basic earnings per share are calculated using the weighted monthly average number of common shares outstanding during the years.

Fully diluted earnings per share are calculated under the assumption that all share options outstanding at the end of the year had been exercised at the later of the beginning of the year and the date of grant.

9. lease commitments

The Company and its subsidiaries have obligations under long-term leases for office facilities and equipment. The future minimum lease payments under these operating leases are as follows:

1998	$ 1,257,920
1999	$ 1,235,603
2000	$ 1,118,363
2001	$ 1,118,564
2002	$ 1,113,412
Thereafter	$ 2,268,672

10. line of credit

The Company has an available line of credit of $1,000,000 with its bankers that is secured by accounts receivable, a general security agreement and a specific first charge over intellectual property.

11. segmented information

The Company operates principally in the design, development and support of advanced operations support systems for the global telecommunications industry. Export sales represent approximately 93% (1996 - 85%) of revenue.

12. financial instruments and concentration of credit risk

1997	Carrying Value	Fair Value
Financial Assets		
Cash and short term investments	$ 34,186,808	$ 35,177,937
Accounts receivable	8,269,941	8,269,941
Investment tax credit recoverable	599,846	599,846
Financial Liabilities		
Accounts payable and accrued liabilities	(2,793,779)	(2,793,779)
Income Taxes payable	(2,264,727)	(2,264,727)
Deferred revenue	(1,809,431)	(1,809,431)

1996	Carrying Value	Fair Value
Financial Assets		
Cash and short term investments	$ 27,716,597	$ 28,394,867
Accounts receivable	5,954,056	5,954,056
Investment tax credit recoverable	460,100	460,100
Financial Liabilities		
Accounts payable and accrued liabilities	(1,725,970)	(1,725,970)
Income Taxes payable	(356,019)	(356,019)
Deferred revenue	(1,812,798)	(1,812,798)

The estimated fair value of cash and short-term investments includes the unrealized gains on investments held.

Accounts receivable from two customers represents 65% of total accounts receivable at September 30, 1997. The Company believes that there is minimal risk associated with the collection of these amounts, as such amounts are receivable from large established telecommunication companies. The balance of accounts receivable is widely distributed among other customers.

13. comparative amounts

Certain comparative figures have been reclassified to conform with the current year's presentation. These reclassifications included disclosing revenue as two sub-categories ("License fees" and Services and other") and the allocation of more of General and Administration expenses and all of the Depreciation and Amortization of capital assets to the other expense categories.

corporate information

board of directors

Anthony P. van Marken
President & Chief Executive Officer
Interim Chair of the Board

David E. Curry
Senior Vice President, Business Development

Richard Black (1) (2)
Vice President,
Helix Investments (Canada) Inc.
Venture Capital Investments

John C. Crosbie, P.C., Q.C. (1) (2)
Barrister & Solicitor

John T. McLennan (2)
President, Jenmark Consulting

Roy D. Trivett (1)
Private Consultant

(1) Member of audit committee
(2) Member of compensation committee

officers

Anthony P. van Marken
President & Chief Executive Officer

David E. Curry
Senior Vice President, Business Development

George Timmes
Senior Vice President, Worldwide Operations

E. Stuart Griffith
Vice President, Finance & General Counsel

Richard Kathnelson
Vice President, Human Resources

Michael A. Morris
Vice President, Engineering

David W. Nyland
Vice President, Worldwide Professional Services

Daniel K. Vermeire
Vice President, Marketing

in memoriam

donald c. (ben) webster

On Saturday, December 13, 1997, Donald C. Webster, founder and Chairman of Helix Investments and Chairman of Architel Systems Corporation, passed away. Known as Ben to his friends, family and business colleagues, he was one of the great entrepreneurial figures in the venture capital industry in Canada. Helix is the oldest and one of the largest venture capital companies in Canada, and Ben Webster was instrumental in the success of many leading Canadian technology companies including Mitel, GEAC, Corel, OpenText, Hummingbird, CRS Robotics, DataMirror and, of course, Architel Systems Corporation.

Architel owes Ben a great debt of gratitude for his support over the years. The passing of Ben is not only a great loss for Architel, since Helix Investments is our largest shareholder and Ben acted as our Chairman, but also to the Canadian venture capital industry and to Canadian business at large. His influence touched many facets of Canadian business and he was an inspiration to entrepreneurs, employees and many others in the business community.

Ben was a great supporter of Architel ever since his early investment in 1984 and has been a great mentor to the senior management team. Ben's insight, enthusiasm, encouragement and sense of humor will be sorely missed.

shareholder information

corporate directory

AUDITORS

Deloitte & Touche, Chartered Accountants,
Mississauga, Ontario

GENERAL COUNSEL

Fasken Campbell Godfrey, Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

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Answer line: (416) 813-4600 or toll free throughout North America at 1-800-387-0825

Internet address: www.rmtrust.ca (web site) or invcorr@rmtrust.ca (e-mail)

COMMON STOCK

Architel's common stock is traded on The Toronto Stock Exchange in Canada under the symbol "ASY".

investor relations

For additional copies of this annual report, Architel's annual information form, quarterly reports, or for further information please contact Investor Relations.

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email: investor_relations@architel.com

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ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

The Annual and Special Meeting of Shareholders will be held at 3:00 p.m., Wednesday, March 24, 1998 at the:

Toronto Hilton Hotel
Ballroom 3
145 Richmond Street West
Toronto Ontario

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